THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

DANBURY INSURANCE COMPANY

HINGHAM, MASSACHUSETTS

As of DECEMBER 31, 2008

N.A.I.C. GROUP CODE 1229

N.A.I.C. COMPANY CODE 37346

EMPLOYER ID NUMBER 06-0600334

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JOSEPH G. MURPHY
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June 14, 2010`

The Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
The Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Law ("MGL"), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

DANBURY INSURANCE COMPANY

at its home office located at 230 Beal Street, Hingham, Massachusetts 02043. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Danbury Insurance Company ("Company") was last examined as of December 31, 2004, under the association plan of the National Association of Insurance Commissioners ("NAIC"). The current association plan examination was conducted by the Massachusetts Division of Insurance ("Division") and it covers the period from January 1, 2005, through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

This examination was conducted at the same time and in conjunction with the statutory financial condition examination made by the Division on the Company's ultimate parent insurer, Hingham Mutual Fire Insurance Company ("HMFIC") of Hingham, Massachusetts.

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC Financial Condition Examiners Handbook, with the examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was 2008 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2008. A review and use of PwC's workpapers were made to the extent deemed appropriate and effective.

The Division retained the consulting actuarial services of KPMG LLP ("KPMG"), an independent certified public accounting firm, to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2008. An evaluation of the adequacy and effectiveness of controls over electronic data processing systems was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the "Notes to the Financial Statements".

Status of Findings from the Prior Examination

The examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2004. It was determined that the Company had addressed satisfactorily all outstanding items of comment.

HISTORY

General

Under the laws of the State of Connecticut, the Company originally was formed and began business as Danbury Mutual Insurance Company in 1850 to insure risks against loss of real property by fire and lightning. In 1961, an amendment to its Charter empowered the Company to write fire, marine, casualty, liability, indemnity, fidelity, and any and all forms of insurance except life and endowment insurance and annuity contracts. In February 1988, the Company's Charter was amended by the Connecticut General Assembly to allow the Company, when authorized by a two-thirds vote of its Board of Directors, to submit a plan of restructuring for the approval of Connecticut's Insurance Commissioner. Effective January 1, 1991, the Company underwent demutualization and was incorporated as a stock company with its current name under the laws of the State of Connecticut**;** at that time, it was licensed to write business only in the State of Connecticut. On August 11, 1994, HMFIC purchased 80% of the stock of Danbury Holding Company ("DHC"), which was the sole parent company of Danbury Insurance Company; DHC later became a wholly owned subsidiary of HMFIC when HMFIC purchased all remaining outstanding shares of DHC on May 1, 1998.

The Company entered into a reinsurance pooling agreement with HMFIC, its ultimate parent company, whereby the Company cedes to HMFIC the business arising out of its insurance operations on and after January 1, 1999; HMFIC then retained 95% and the Company assumed 5% of the pooled business of both insurers. Effective January 1, 2008, HMFIC retains 82% and the Company assumes 18% of both insurers' pooled business.

The Company redomesticated to the Commonwealth of Massachusetts on December 15, 2000. It currently is licensed to conduct business in four states, Connecticut, Massachusetts, New Hampshire, and Rhode Island; however, it has not as yet written business in Rhode Island. As a licensed property and casualty insurer, the Company writes personal and commercial insurance through a network of independent agents.

Growth of the Company

The growth of the Company for the years 2005 through 2008 is shown in the following schedule which was prepared from information in the Company's annual statements:

Year	Admitted Assets	Liabilities	Surplus
2008	$ 18,318,499	$ 10,690,296	$ 7,628,203
2007	16,756,853	7,092,095	9,664,758
2006	15,928,426	6,509,867	9,418,559
2005	16,092,232	7,012,044	9,080,188

Management

Annual Meeting

In accordance with the By-Laws, the Annual Meeting of the Company shall be held at the home-office in Hingham, Massachusetts, on the third Thursday in February of each year. Eleven Members of the Company present in person or represented by proxy shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held in the examination period.

Board of Directors

According to the By-Laws, the Board of Directors shall consist of not fewer than seven or not more than nine Directors. The Directors are divided into three classes of not more than three Directors each. The term of office of the Directors of one class only expires each year, and successors are chosen by ballot at the annual meeting of members of the Company for a term of three years or until successors are elected and qualified. At December 31, 2008, the Board was composed of eight Directors, which is in compliance with the Company's By-Laws.

Directors duly elected and serving at December 31, 2008, with addresses and business affiliations, are as follows:

Director	Business Affiliation	Residence
Brian Ralph Wilkin, Chairman of the Board	President and Chief Executive Officer, Danbury Insurance Co.	Cohasset, MA
Melissa Browne	Chief Operating Officer , NAIOP	Cohasset, MA
Bruce Taylor Cameron	Senior Vice President, RBC Dain Rauscher, Inc.	Cohasset, MA
George Albert Cole III.	Senior Vice President, Hingham Mutual Fire Insurance Company .	Hingham, MA
Charles Webster Dean	Director of Business Development, Boston Forms, LLC	Littleton, MA

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Director	Business Affiliation	Residence
Margaret Albertie Lynch	Attorney, Retired, Transportation Division of the Department of Telecommunications and Energy	Cohasset, MA
Philip Harper Ryder	President, Retired, Mutual Fire Insurance Association of New England	Eastham, MA
William Sumner Thayer	Architect	Duxbury, MA
Brian Anthony Williams	President, Williams Coal & Oil	Hingham, MA

All of the Directors listed above held these positions consistently since the prior examination and they simultaneously held similar positions on the Board of Directors for HMFIC. .

The By-Laws specify that the Directors shall meet at least five times a year and that a regular meeting of the Board shall be held immediately following the annual meeting of the Company for the election of officers for the ensuing year. A majority of the Board of Directors, but not less than five, shall constitute a quorum. The minutes indicated that a quorum was obtained for all meetings of the Board of Directors held during the examination period.

The By-Laws specify that the Board of Directors may elect a Finance Committee**;** the Board did not elect one as the Board itself is active in directing and reviewing investment activities. The By-Laws also specify that the Board may appoint such other committee(s), composed of any designated number of its members, as it shall deem appropriate**;** in this latter regard, the Board appointed an Audit Committee and a Salary and Pension Committee. The purpose and membership of each committee at December 31, 2008, was as follows:

Audit Committee

The Audit Committee was established by the Board of Directors and charged with developing a Charter. Per such Charter, the Audit Committee shall consist of three or more Directors each of whom shall be independent of management of the Hingham Group and otherwise have no business directly or indirectly with the Hingham Group that could influence their judgment or interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. Its members shall not be officers or employees of the Hingham Group and shall meet the definition of independent directors (as set forth under Sarbanes-Oxley Act); one member of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication. The function of the Audit Committee is to assist the Board of Directors in its role as representatives of the policyholders by overseeing corporate accounting policies, reporting practices, and the quality and integrity of the financial reports of the Hingham Group, and by reviewing the financial information that is provided to policyholders, regulatory authorities, and others. To achieve such functions, the Charter enumerates several specific responsibilities of the Audit Committee and the Audit Committee must submit minutes of all its meetings and regularly report its activities to the Board of Directors. Directors serving on this Committee at December 31, 2008, were as follows:

Charles W. Dean, Chairman

Melissa Brown.	Brian A. Williams
Margaret A Lynch	

Salary and Pension Committee

The Salary and Pension Committee was established by the Board of Directors. Directors serving on this Committee at December 31, 2008, were as follows:

Philip H. Ryder, Chairman

Bruce T. Cameron	William S. Thayer

Officers

The By-Laws of the Company provide that the regular officers of the Company shall be a President, a Treasurer, and a Secretary, all of whom shall be residents of Massachusetts and shall be elected annually by the Board of Directors. The President shall be the chief executive officer and head of the Company and shall have the general control and management of its business and affairs subject to the Board of Directors; additionally, the President shall be a member of the Board of Directors. Further, the Board of Directors regularly has voted that the President with the Secretary or Treasurer be authorized to buy or sell securities between meetings of the Board with the provision that such purchases and sales be reported at the next Board meeting and recorded in the minutes of such meeting. The Board of Directors may also from time to time elect or appoint such other officers or agents as it may deem proper, and may fix the term of office, powers, and duties of such officers or agents. Officers and Directors shall hold office until their successors are elected or appointed and qualified; any officer or Director may at any time resign or be deposed by the body electing or appointing him, and any vacancy may be filled for the unexpired part of the term by a majority vote of the Directors or remaining Directors.

The elected and appointed officers and their respective titles at December 31, 2008 were the following:

Name	Title
Brian Ralph Wilkin	President
Bruce Michael Arnold, CIC	Senior Vice President
George Albert Cole, III	Senior Vice President and Treasurer
Robert Christopher Hunter	Vice President and Chief Information Officer
Cheryl Elizabeth Wigmore	Vice President and Secretary

(continued from preceding page)

Name	Title
John Francis Keaveney, CPCU, CIC	Assistant Vice President
Cheryl Mae Taylor	Assistant Vice President
Maryellen Halibozek	Assistant Secretary
Barbara Anne White	Assistant Secretary
Mark Thomas Wilkin	Assistant Secretary
Michael Stephen Wood	Assistant Secretary
James Albert McCarthy	Assistant Treasurer
Samuel Anthony Villani, II, CIC	Assistant Treasurer

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All of the Company's Officers listed above simultaneously held similar positions in HMFIC.

Conflict of Interest Procedure

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 16 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties; annually, each officer, director, or responsible employee signs a form attesting that there are no material conflicts of interests. The completed forms for the examination period were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2008 Annual Statement.

Corporate Records

Articles of Incorporation and By-Laws

The By-Laws and Articles of Incorporation and amendments thereof were read. There were no changes to the By-Laws or Articles of Incorporation since the prior examination.

Disaster Recovery and Business Continuity

The Company provides for continuity of management and operations in the event of a catastrophe or national emergency in accordance with MGL c. 175, ss. 180M through 180Q.

Board of Directors Minutes

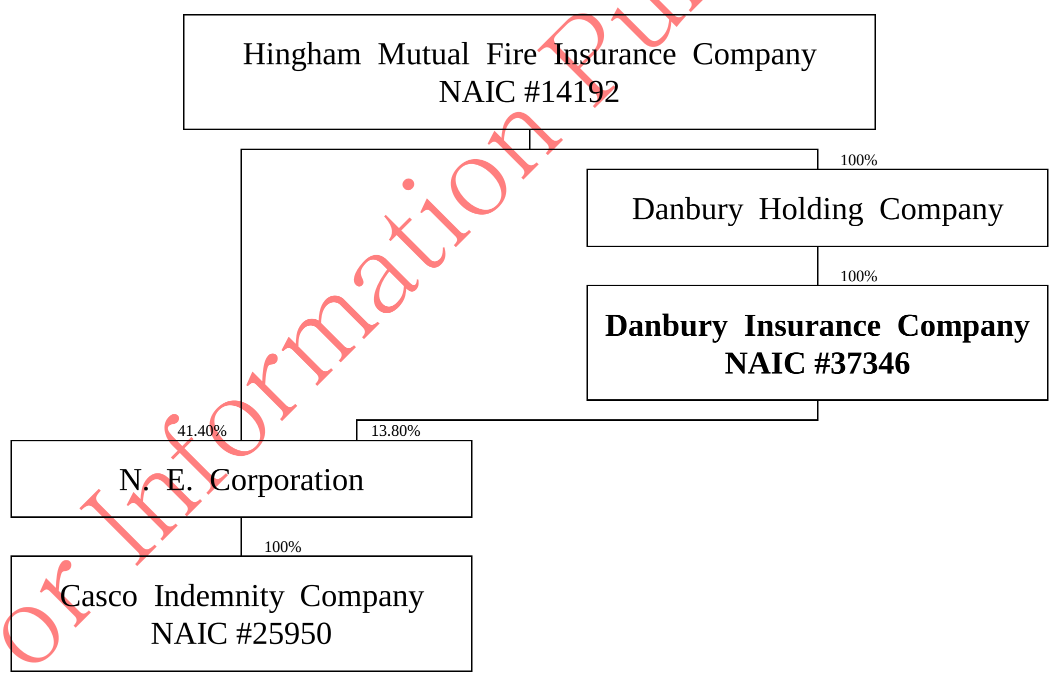
The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's By-Laws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors. The Company filed affidavits with the Division that its Directors received and reviewed the prior Report of Examination.

AFFILIATED COMPANIES

Per Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of MGL c. 175, s. 206C and Regulation 211 CMR 7.00. The Company is the ultimate controlling party of the group consisting of five entities, including three insurance and two non-insurance companies.

Organization Chart

The corporate organization of entities held by the Company at December 31, 2008, is represented as follows**:**



Transactions and Agreements with Subsidiaries and Affiliates

Other than reinsurance agreements with Casco, the three predominant cost-sharing arrangements involving the Company are a management services arrangement, a tax sharing agreement, and an inter-company reinsurance pooling agreement. Each is described briefly in the following summary:

Management and Service Arrangement

The Company receives certain accounting, management, and other services from its ultimate parent company, HMFIC. Costs and expenses incurred by HMFIC relating to the Company are allocated to the Company.

Inter-Company Pooling Agreement

The Company has an inter-company pooling agreement with HMFIC, whereby the Company cedes all of its business to HMFIC and then assumes a portion of such amounts combined with balances arising from HMFIC's business; by the percentages listed in the agreement, HMFIC retains 82% and the Company assumes the remaining balance (18%) of such combined business.

Tax Sharing Agreement

Entered into as of January 1, 2001, the Company participates in a written tax allocation agreement with two of its affiliates, HMFIC and DHC. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code. HMFIC is responsible for making tax payments quarterly with a final inter-company payment or refund to be made in the fourth quarter for the prior year.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with MGL c. 175, s. 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by other policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2008**.**

PENSION AND INSURANCE PLANS

Whereas office and staff is provided to the Company by HMFIC, the Company itself does not have employees and it does not have retirement/pension plans or other post-retirement benefits.

SPECIAL DEPOSITS

Special Deposits of the Company as of December 31, 2008 are as follows:

State	Purpose of Deposit	BookValue	Fair Value
Massachusetts	Benefit of All Policyholders	$ 507,115	$ 512,400
Rhode Island	Benefit of All Policyholders	507,331	525,490
Totals		$ 1,014,116	$ 1,041,890

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

The Company offers personal and commercial property and liability coverages utilizing policy forms, riders, and endorsements that are subject to the approval of the individual state insurance departments. At December 31, 2008, the Company's maximum retention limit, net of reinsurance, was $750,000 per risk.

Territory and Plan of Operation

The Company currently is licensed to write business in the following four states: Massachusetts, Connecticut, New Hampshire, and Rhode Island; however, it does not actively write business in Rhode Island. All Certificates of Authority were current and in force.

Through its appointed independent agents, the Company's lines of business include homeowners provided to personal risks and some commercial multiple peril coverage provided to commercial risks. Its predominant concentration of business is homeowners coverage in the State of Connecticut.

Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2008 through December 31, 2008. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4.

The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market

Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins.

The basic business areas that were reviewed under the market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment. The Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2008 through December 31, 2008 was issued on July 23, 2009 and is a public document.

REINSURANCE

In addition to participating in an inter-company reinsurance pooling arrangement, the Company has a limited program of reinsurance. The following briefly describes some of the major exchanges.

Inter-Company Reinsurance Pooling Agreement

Effective January 1, 1999, the Company began to participate in an inter-company reinsurance pooling agreement with its ultimate parent company, HMFIC, whereby the Company cedes to HMFIC the premiums, losses, loss adjustment expenses, and underwriting expenses of all of the Company's insurance risks underwritten or assumed on or after such effective date. HMFIC assumes these amounts and then retrocedes to the Company the specific, pre-agreed percentage (18%) of the total of such amounts and of similar amounts that arise from HMFIC's own insurance business. The agreement is prospective in nature. Assets equaling the net change in liabilities as a result of such pooling arrangement were transferred between the pool participants.

Aggregate balances for gross premiums associated with reinsurance transactions are shown below for each company at the examination date.

	2008	
GROSS PREMIUMS	H.M.F.I.C.	D.I.C.
Direct Business	$ 43,870,365	$ 7,371,038
Reinsurance Assumed from:		
Affiliates	9,506,874	12,439,540
Non-Affiliates	4,850,816	68,503
Reinsurance Ceded to:		
Affiliates	12,439,539	7,394,575
Non-Affiliates	10,720,184	44,966
Net Premiums Written	$ 35,067,332	$ 12,439,540

Assumed Reinsurance

Involuntary Pools

The Company has mandatory participation in the F.A.I.R. Plans of Connecticut, Massachusetts, and Rhode Island. As the Company has no premiums written in Rhode Island, it accepted property insurance risks only from Connecticut and Massachusetts; such business was reported as reinsurance assumed from non-affiliates.

Affiliate

In addition to the pooling agreement with HMFIC, the Company entered into a quota share contract to assume business from Casco, its indirectly held subsidiary. Effective January 1, 2000, Casco ceded 25% of its motor vehicle business to its parent insurance companies. At December 31, 2004, the Company's proportionate share of such business was 13.79% of the 25% cession; however, effective January 1, 2005, the company terminated this agreement and transferred all liabilities to HMFIC.

Ceded Reinsurance

The Company participated in a variety of treaties ceding reinsurance that limited, to some extent, its direct exposure. Effective January 1, 1999, the Company terminated all of its then existing reinsurance agreements and became part of HMFIC's reinsurance program with certain excess of loss and catastrophe treaties. Under the excess of loss treaty, the Company's retention for property and casualty losses was $750,000 at December 2008. With General Reinsurance Intermediaries, the Company purchased catastrophe excess of loss protection under which the Company retains the first $3.0 million of losses and a varying percentage of losses, as specified through several layers, up to a limit of $163.0 million. If any reinsurers are unable to fulfill their obligations under the reinsurance agreements, primary liability to policyholders and claimants for incurred losses would remain the sole obligation of the Company.

SUBSEQUENT EVENTS

The following events that occurred subsequent to the December 31, 2008 examination date are noted:

On October 1, 2009, Brian R. Wilkin retired as the CEO of the Company and was replaced by George A. Cole III. At its July, 2009 meeting, the Board of Directors voted to confirm Mr. Cole's appointment as Chief Executive Officer. Mr. Cole will continue to retain the title and responsibilities of Treasurer of the Company.

On December 23, 2009 AM Best announced a ratings downgrade for the Company from its previous rating of B+ (Good) to B (Fair) and an issuer credit rating from "bbb-" to a "bb". The ratings downgrade reflects the Company's decline in capitalization, trend of earnings variability, high exposure to equity market volatility, limited product offerings and geographic concentration of risks in New England. These negative rating factors are partly offset by the Group's long standing agency relationships and regional market presence.

To address this downgrade, the Company has taken measures to improve profitability and aggressively reduce expenses and has identified plans to increase premiums, reduce costs and improve its surplus and liquidity ratios. The Company has been involved in affiliation discussions with several insurance companies over the period subsequent to this examination.

On June 10, 2010, the Company entered in an affiliation agreement with NLC Insurance Companies ("NLC") of Norwich, CT. The affiliation consists of a management agreement and a reinsurance pooling agreement between the Company, Danbury Insurance Company and the NLC group that consists of New London County Mutual Insurance Company and the Thames Insurance Company. The agreement is subject to policyholder and regulatory approvals, with a final closing expected in the third quarter of 2010. The affiliation will expand the Company's capital base and provide additional resources to improve operations.

In anticipation of the approval of the Affiliation Agreement, the company partially liquidated certain equity investments from its investment portfolio beginning May 6, 2010 to reduce the Company's equity exposure and align the Company's portfolio with that of NLC.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of controls in the information technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the information technology controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to annual statements. No material exceptions were noted.

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by PwC.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2008:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Statement of Income for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended December 31, 2008

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	$ 9,969,473	$ 0	$ 9,969,473	
Preferred stocks	55,930		55,930	
Common stocks	1,656,296		1,656,296	
Mortgage loans on real estate: First liens	-		-	
Real estate: Properties occupied by the Company	-		-	
Cash and short-term investments	1,988,473		1,988,473	
Other invested assets	19,665		19,665	
Subtotals, cash and invested assets	13,689,837	-	13,689,837	
Investment income due and accrued	125,069		125,069	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	4,106,830		4,106,830	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	265,068		265,068	
Current Foreign and Federal IncomeTax Recoverable	72,158		72,158	
Receivable from parent, subsidiaries, and affiliates	59,537		59,537	
Total Assets	$ 18,318,499	$ 0	$ 18,318,499	

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	$ 2,809,519	$ 0	$ 2,809,519	(1)
Reinsurance payable on paid loss and loss adjustment expenses	165,330		165,330	
Loss adjustment expenses	642,512		642,512	(1)
Commissions payable, contingent commissions, and other similar charges	203,147		203,147	
Other expenses	37,460		37,460	
Taxes, licenses, and fees	(8,166)		(8,166)	
Current federal and foreign income taxes				
Net deferred tax liability				
Unearned premiums	5,220,101		5,220,101	
Advance premiums	124,542		124,542	
Ceded reinsurance premiums payable	19,227		19,227	
Drafts outstanding				
Payable to parent, subsidiaries, and affiliates	1,422,925		1,422,925	
Aggregate write-in for liabilities:				
Non-admitted asset -- F.A.I.R. Plan				
F.A.I.R. Plan expenses payable	53,699		53,699	
Total Liabilities	10,690,296	-	10,690,296	
Common capital stock	1,150,000		1,150,000	
Gross paid-in and contributed surplus	8,517,500		8,517,500	
Unassigned funds (surplus)	(2,039,297)		(2,039,297)	
Surplus as regards policyholders	7,628,203	-	7,628,203	
Total Liabilities, Capital, and Surplus	$ 18,318,499	$ 0	$ 18,318,499	

Statement of Income
For The Year Ended December 31, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	$ 8,714,939	$ 0	$ 8,714,939	
Deductions:				
Losses incurred	5,384,768		5,384,768	
Loss expenses incurred	1,050,172		1,050,172	
Other underwriting expenses incurred	4,500,508		4,500,508	
Total underwriting deductions	10,935,448	-	10,935,448	
Net underwriting gain	(2,220,509)	-	(2,220,509)	
Net investment income earned	279,013		279,013	
Net realized capital gains	2,191		2,191	
Net investment gain	281,204	-	281,204	
Net gain (loss) from agents' or premium balances charged off	-		-	
Finance and service charges not included in premiums	67,172		67,172	
Aggregate write-ins for miscellaneous income:	-		-	
Total other income	67,172	-	67,172	
Net income before dividends to policyholders and before federal and foreign income taxes	(1,872,133)	-	(1,872,133)	
Dividends to policyholders	-		-	
Net income after dividends to policyholders but before federal and foreign income taxes	(1,872,133)	-	(1,872,133)	
Federal and foreign income taxes incurred	(84,614)		(84,614)	
Net Income	$ (1,787,519)	$ 0	$ (1,787,519)	

Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2008

	2008	2007	2006	2005
Surplus as regards policyholders as of December 31, prior year	$ 9,664,758	$ 9,418,559	$ 9,080,188	$ 8,855,898
Net income	(1,787,519)	199,538	266,100	171,777
Change in net unrealized capital gains or (losses)	(388,306)	67,858	121,076	72,259
Change in net deferred income tax	138,229	(20,272)	(49,559)	(24,061)
Change in non-admitted assets	747	(885)	864	4,265
Aggregate write-ins for gains or (losses) in surplus:				
Change in amount of advance direct bill premiums collected	-	-	-	-
Change in non-admitted assets related to F.A.I.R. Plans	294	(40)	(110)	50
Net change in surplus as regards policyholders for the year	(2,036,555)	246,199	338,371	224,290
Surplus as regards policyholders as of December 31, current year	$ 7,628,203	$ 9,664,758	$ 9,418,559	$ 9,080,188

* Per Examination

NOTES TO FINANCIAL STATEMENT

NOTE 1:

Losses	$ 2,809,519
Loss Adjustment Expenses	$ 642,512

As part of the examination, the Division engaged the consulting actuarial services of KPMG LLP. The consulting actuaries for the Division performed an independent analysis of the loss and loss adjustment expense reserves carried by the HMFIC and by the Company and rendered an actuarial opinion on the reasonableness of the reserves carried by the Company and by HMFIC as of December 31, 2008.

In light of the inter-company pooling agreement, KPMG's actuaries conducted their review on a consolidated companies basis for the insurers comprising the Hingham Group (Hingham Mutual Fire Insurance Company and Danbury Insurance Company). KPMG noted that the Group's loss and loss adjustment expense reserves as of December 31, 2008, are stated gross of salvage and subrogation recoverables and gross of expected interest income associated with the time value of money.

KPMG reported that as of December 31, 2008, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, gross of reinsurance recoverables, of $36.6 million. Based on its own independent review, KPMG estimated the Group's gross loss and loss adjustment expense liabilities as of December 31, 2008, at $30.7 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of $28.0 million to a high of $34.6 million. In the opinion of KPMG, the gross loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2008, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

KPMG reported that as of December 31, 2008, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of $26.0 million. Based on its own independent review, KPMG estimated the Group's net loss and loss adjustment expense liabilities as of December 31, 2008, at $27.7 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of $25.3 million to a high of $30.9 million. In the opinion of KPMG, the net loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2008, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

KPMG noted that based on the inter-company pooling agreement, the aggregate reserve position of the Hingham Group generally reflects the position of each member insurer within the Group. Thus, in the opinion of KPMG, the net and gross loss and loss adjustment expense reserves carried by each insurer in the Hingham Group as of December 31, 2008, make reasonable provision for all unpaid loss and loss adjustment expense obligations of that respective Group member.

In specific regard to Hingham Mutual Fire Insurance Company, on a net basis, the following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2008:

Net Loss and Loss Adjustment Expense Reserves

(*000 omitted*) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Net of Reinsurance				
Hingham	$ 22,155	$24,216	$ 27,030	$ 22,584
Danbury	3,162	3,493	3,918	3,452
Total Net Reserves	$ 25,317	$ 27,712	$ 30,948	$ 26,040

Similarly, on a gross basis, the following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2008
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Gross Loss and Loss Adjustment Expense Reserves

(*000 omitted*) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Gross of Reinsurance				
Hingham	$ 24,514	$ 26,838	$ 30,193	$ 31,796
Danbury	3,512	3,873	4,364	4,799
Total Gross Reserves	$ 28,026	$ 30,711	$ 34,556	$ 36,595

In the course of analyses, KPMG used several accepted loss reserving methods and procedures to derive reserve estimates and to construct ranges. KPMG gave consideration to the relative strengths and weaknesses of each of the methods in deriving the KPMG selected point estimate within the range. KPMG noted that the range of reasonable reserve estimates does not reflect all possible outcomes; rather, it is a range that has been constructed using alternative methodologies and assumptions that KPMG believed to be reasonable. KPMG stated its analyses were performed using accepted loss and loss expense reserving methods in conformance with sound actuarial practices and principles and that KPMG introduced assumptions and judgments that it considered appropriate in the circumstances.

CONCLUSION

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

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